

# Memorandum

490.0233

To: District Administrators

Date: March 19, 1991

From: Glenn A. Bystrom  
Principal Tax Auditor

Subject: Returned Merchandise vs Trade-in.

Several districts recently requested clarification of the treatment of merchandise which has been returned by the purchaser for full credit of the original selling price even though the merchandise had been held by the purchaser for a prolonged period of time. Common examples of this type of merchandise which tend to appreciate in value are jewelry and oil paintings. The question which arises is whether such transactions qualify as bona fide returns or are, in fact, trade-ins. This question was addressed some years ago and our policy on the application of tax has not changed.

Although there is no easy way of determining whether a return is a bona fide return or a trade-in, the distinction for sales tax purposes is based on the seller's policy and the treatment of individual transactions. The elapsed time between the sale and the return of the merchandise has no bearing on the application of the tax if full credit, including tax reimbursement, is given to the customer and the customer is not required to purchase merchandise at a greater price in order to receive the credit.

If the seller allows full credit, the burden is upon the board to demonstrate that the customer was required to purchase an item of greater value. In order to do this, we must look to the taxpayer's written policy and/or past practices for this proof.

Please ensure that your staff is aware of this policy. If you have any questions, please call me.

G. A. Bystrom

GAB:gjm  
M313

cc: Mr. Robert Nunes  
Mr. Gary Jugum – please investigate the possibility of annotating this letter.  
Headquarters Audit Section Supervisors

Copies to: All Supervisors (9) 3/22/91